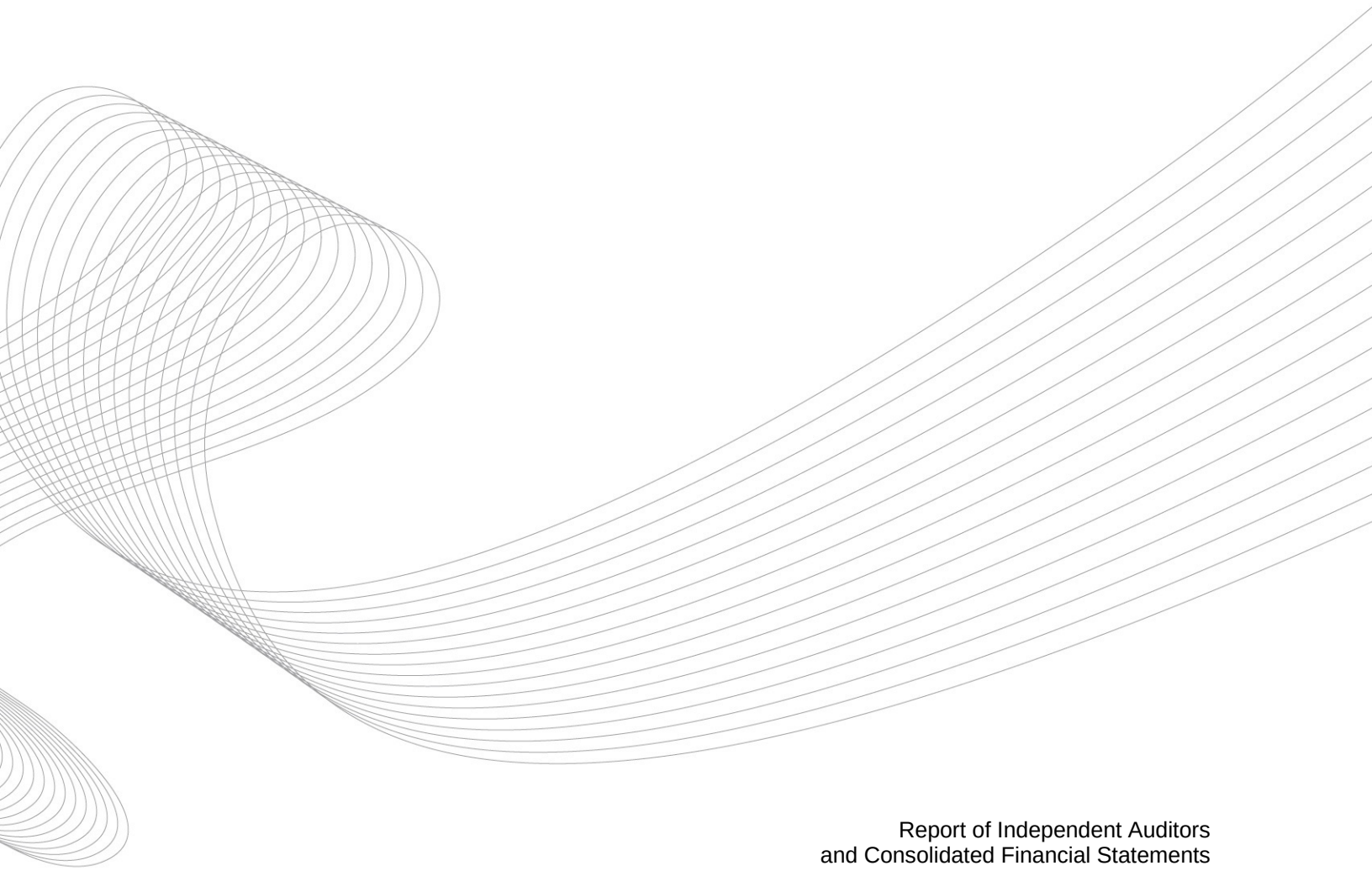

Report of Independent Auditors
and Consolidated Financial Statements
with Required Supplementary Information
and Other Supplementary Information for

Antelope Valley Healthcare District

June 30, 2016 and 2015

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Antelope Valley Healthcare District

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Antelope Valley Healthcare District (the "District") as of and for the years ended June 30, 2016 and 2015, and the related notes to the consolidated financial statements, which collectively comprise the District's basic consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the California Code of Regulations, Title 2, Section 1131.2, State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

MOSS-ADAMS LLP

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Antelope Valley Healthcare District as of June 30, 2016 and 2015, and the changes in their financial position and their cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 11 and the schedules of funding progress for the District's postretirement health plan, schedule of changes in the net pension liability and related ratios and schedule of contributions for the defined benefit pension plan, on pages 53 through 55, be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise Antelope Valley Healthcare District's basic consolidated financial statements. The consolidating schedules on pages 56 through 61 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements.

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The consolidating schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating schedules are fairly stated, in all material respects, in relation to the basic consolidated financial statements as a whole.

Moss Adams LLP

Los Angeles, California
November 23, 2016

This section of Antelope Valley Healthcare District's (the District) financial statements presents management's discussion and analysis of the financial activities of the District for the fiscal years ended June 30, 2016, 2015, and 2014. We encourage the reader to consider the information presented here in conjunction with the financial statements as a whole.

Introduction to the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's audited financial statements. This annual report is prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The required financial statements include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. Notes to the financial statements, supplementary detail and/or statistical information, and this summary support these statements. All sections must be considered together to obtain a complete understanding of the financial picture of the District.

Statement of Net Position

This statement includes all assets and liabilities using the accrual basis of accounting as of the statement date. The difference between the two classifications is represented as "Net Position"; this section of the statement identifies major categories of restrictions on these assets and reflects the overall financial position of the District as a whole.

Statement of Revenues, Expenses, and Changes in Net Position

This statement presents the revenues earned and the expenses incurred during the year using the accrual basis of accounting. Under the accrual basis, all increases or decreases in net position are reported as soon as the underlying event occurs, regardless of the timing of the cash flow. Consequently, revenues and/or expenditures reported during this fiscal year may result in changes to cash flows in a future period.

Statement of Cash Flow

This statement reflects inflows and outflows of cash, summarized by operating, capital, financing, and investing activities. The direct method was used to prepare this information, which means gross rather than net amounts were presented for the year's activities.

Notes to the Financial Statements

This additional information is essential to a full understanding of the data reported in the financial statements.

The District is a political subdivision of the state of California organized and existing under the provisions of the Local Health Care District Law of the state of California. The District is located in Lancaster, California, and is governed by a five-member Board of Directors elected by voters within the District. Unless otherwise indicated, amounts presented in management's discussion and analysis are in thousands.

The District's Net Position

The District's net position represents the difference between its assets and deferred outflows of resources less liabilities and deferred inflows of resources as reported in the statements of net position. The District's net position increased by $2,339 or 3.3% in 2016 over 2015 and decreased by $44,718 or 38.5% in 2015 over 2014 as shown in Table 1. In 2015, the District adopted GASB No. 68 and recognized a cumulative effect of change in accounting principle of $51,634 that increased the net pension liability and reduced the net position. Offsetting this decrease was an increase in net position of $6,916. In 2016, net position increased an additional $2,339.

Table 1: Assets, Liabilities and Net Position as of June 30 (in thousands):

	2016	2015	2014
ASSETS			
Patient accounts receivable, net	$ 56,510	$ 51,120	$ 51,858
Other current assets	90,554	74,982	69,188
Capital assets, net	163,201	174,403	178,428
Other noncurrent assets	66,357	69,155	71,502
Total assets	376,622	369,660	370,976
DEFERRED OUTFLOWS OF RESOURCES	25,152	4,025	-
Total assets and deferred outflows of resources	$ 401,774	$ 373,685	$ 370,976
LIABILITIES			
Long-term debt (including current portion)	$ 132,847	$ 123,455	$ 130,486
Other current and noncurrent liabilities	191,132	178,906	124,447
Total liabilities	323,979	302,361	254,933
DEFERRED INFLOWS OF RESOURCES	4,131	-	-
NET POSITION			
Net investment in capital assets	52,869	64,683	62,017
Restricted, expendable	201	718	689
Restricted, nonexpendable	522	459	535
Unrestricted	20,072	5,464	52,802
Total net position	73,664	71,324	116,043
Total liabilities, deferred inflows of resources and net position	$ 401,774	$ 373,685	$ 370,976

The District's Net Position (continued)

The following is an explanation of the significant changes between fiscal years as show in Table 1:

Changes from fiscal 2015 to 2016

Patient accounts receivable, net increased $5,390 or 10.5% from 2015 to 2016 mainly due to a shift in payor mix and slower payments from certain commercial payers. Within the change in payor mix, the District experienced an increase in patients qualifying for governmental programs in 2016 as compared to 2015 and a shift from traditional Medi-Cal to managed Medi-Cal plans. Charity care write-offs totaled $9,135 in 2016, a decrease of 10.9% from 2015.

Other current assets increased $15,572 or 20.8% from 2015 to 2016 due to: 1) an increase in cash of $12,885 mainly due to improved patient related collections, and 2) an increase of $3,344 of estimated amounts due from third-party payor settlements due primarily to the District's qualification for participation in the Public Hospital Redesign and Incentives in Medi-Cal (PRIME) Program.

Capital assets, net decreased $11,202 or 6.4% from 2015 to 2016. Purchases of new equipment and the continuation of certain capital projects in the current year amounted to $9,125 which was offset by depreciation and amortization expense of $15,068 and an impairment write-down of $5,175 due to abandoned projects.

Other noncurrent assets decreased $2,798 or 4.0% from 2015 to 2016 due to the restructuring of bond debt.

Deferred outflows of resources increased $21,127 or 524.9% due to deferred charges related to the advanced refunding of certain debt in 2016 of $4,634 and the net difference between expected and actual earnings on pension plan investments in 2016 of $16,494.

Changes from fiscal 2014 to 2015

Patient accounts receivable, net decreased $738 or 1.4% from 2014 to 2015 mainly due to a shift in payor mix and slower payments from certain commercial payers. Within the change in payor mix, the District experienced an increase in patients qualifying for governmental programs in 2015 as compared to 2014 and a shift from traditional Medicare and Medi-Cal to managed care plans. Charity care write-offs totaled $10,250 in 2015, a decrease of 22.2% from 2014.

Other current assets increased $5,794 or 8.4% from 2014 to 2015 due to: 1) an increase in cash of approximately $8,076 (Supplemental Funding and cost report recoveries increase of $10,726 over 2014), and 2) a decrease in amounts due from other receivables of $1,607 (Healthy Way LA) that were received during 2015.

Capital assets, net decreased $4,025 or 2.3% from 2014 to 2015. This was due to higher depreciation as a result of the District's Master Plan and other projects that were placed into service in 2015. These projects included the opening of the Institute for Heart and Vascular Care Center, improvements to the operating room HVAC system, and payroll and human resources software implementation.

Other noncurrent assets decreased $2,437 or 3.3% from 2014 to 2015. This was due to use of Local Agency Investment Fund (LAIF) funds used to fund the Intergovernmental Transfer (IGT) program.

Deferred outflows of resources – In connection with the implementation of GASB No. 68 effective July 1, 2015, the District reported deferred outflows of resources of $4.0 million as of June 30, 2015 related to net differences between projected and actual earnings on pension plan investments.

Operating Results and Changes in the District's Net Position

Table 2: Operating Results and Changes in Net Position for the years ended June 30 (in thousands)

	2016	2015	2014
OPERATING REVENUE			
Net patient service revenue	$ 409,094	$ 394,261	$ 349,333
Other	5,009	7,375	10,617
Total operating revenues	414,103	401,636	359,950
OPERATING EXPENSES			
Salaries and wages and employee benefits	230,341	224,548	214,881
Purchased services and professional fees	-	51,775	49,242
Other operating expenses	161,981	102,772	82,836
Depreciation and amortization	15,068	14,503	12,521
Total operating expenses	407,390	393,598	359,480
OPERATING INCOME	6,713	8,038	470
NONOPERATING REVENUES (EXPENSES)			
Grant revenue and contributions	3,560	3,690	3,979
Investment income	1,217	986	1,242
Bond issuance costs	(2,421)	-	-
Interest expense	(6,730)	(5,798)	(5,352)
Total nonoperating expenses, net	(4,374)	(1,122)	(131)
Change in net position	$ 2,339	$ 6,916	$ 339

The following is an explanation of the significant changes between fiscal years as show in Table 2:

The first component of the overall change in the District's net position is its operating income that is generally the result of the difference between net patient service revenue and other operating revenues and the expenses incurred to perform those services. Operating income decreased by $1,325 or 16.5% in 2016 as compared to 2015 and increased by $7,568 or 1,610.2% in 2015 as compared to 2014. The primary components of the changes in operating income are as follows:

Changes from fiscal 2015 to 2016

Net patient service revenue for the District increased by $14,833 or 3.8% in 2016 compared to 2015. The District reported a net decrease in adjusted patient days of 4.4% from 2016 compared to 2015, yet realized an 8.4% increase in net patient service revenue per adjusted patient day as a result of price increases which became effective in October 2015. Additionally, the District recognized revenue from various supplemental funding sources including the IGT Program, Disproportionate Share funding, and the Hospital Fee Program totaling $40,208 and $44,639 in 2016 and 2015, respectively.

Operating Revenue, Other for the District decreased by $2,366 or 32.1% in 2016 compared to 2015. In 2016, the District received $948 to support the electronic medical record investment via Medicare Meaningful Use payment. In 2015, the District received $3,292 via both Medicare and Medi-Cal Meaningful Use payments. The Meaningful Use program became available to the District in 2014.

Operating expenses increased $13,792 or 3.5% in 2016 as compared to 2015. Increases were mainly attributable to:

- Salary cost increases of $3,881
- Retirement benefits cost increase $3,277
- Employee health self insured cost decrease $2,262
- Impairment write down of abandoned projects $5,175
- Management fee expense of $3,729

Changes from fiscal 2014 to 2015

Net patient service revenue for the District increased by $44,928 or 12.9% in 2015 compared to 2014. The District reported a net increase in adjusted patient days of 2.6% from 2015 compared to 2014 and realized a 9.3% increase in net patient service revenue per adjusted patient day. The District recognized revenue from various supplemental funding sources including the IGT Program, Disproportionate Share funding, and the Hospital Fee Program totaling $44,639 and $26,009 in 2015 and 2014, respectively.

Operating Revenue, Other for the District decreased by $3,243 or 30.5% in 2015 compared to 2014. In 2015, the District received $3,292 to support the electronic medical record investment via both Medicare and Medi-Cal Meaningful Use payments compared to $6,409 received in 2014.

Operating expenses increased $34,118 or 9.5% in 2015 as compared to 2014. $9,667 of the increase is primarily due to higher levels of staffing and increased employee benefit expenses. The remaining change was primarily due to an increase in Other Operating Expenses of $19,936 or 24.1% due largely to increased IGT payments of $19,315 in 2015 compared to $5,621 in 2014. Medical supply costs were also up due to higher patient volume and certain high cost supplies.

Formatting Differences to Consider When Comparing the District's Statement of Revenues, Expenses, and Changes in Net Position to Other Nongovernment Hospitals

The Governmental Accounting Standards Board ("GASB") requires a grouping on the statements of revenues, expenses, and changes in net position, which grouping differs from other non-governmental hospitals as follows: non-operating revenues, net includes interest expense, which, in non-governmental hospitals is grouped as an operating expense. This GASB grouping requirement makes District hospitals conform to other government entities, such as cities and counties. Because of this difference, the District's published statements of revenues, expenses, and changes in net position is not readily comparable to other non-governmental hospitals because the GASB grouping requirement does not apply to non-governmental hospitals. This must be considered in order to compare the District to other non-governmental hospitals.

The District's Cash Flows

Net cash provided by operating activities decreased $9,181 or 30.6% from 2015 to 2016 mainly due to additional funding to the Pension Plan and increased salary costs. In 2015, net cash provided by operating activities increased $13,745 mainly due to an increase in patient related collections, the receipt of Intergovernmental Transfer (IGT) funds, and third party payor settlements. In 2014, net cash provided by operating activities increased $12,781 mainly due to the increase in net patient accounts receivable and changes in estimated third party payor settlements.

Capital Asset and Debt Administration Capital Assets

At the end of 2016, 2015 and 2014, respectively, the District had $163,201, $174,403, and $178,428 in capital assets, net of accumulated depreciation, as detailed in Note 6 to the basic consolidated financial statements. The District purchased new equipment which included information technology, surgical equipment and other minor infrastructure projects costing $4,783 in 2016, $4,731 in 2015 and $1,963 in 2014. Also during 2016, 2015 and 2014, the District expended $4,570, $5,863, and $19,748, respectively, on land, buildings and leasehold improvements for the District Master Plan renovation.

Debt

The District had $132,847, $123,455, and $130,486 in outstanding debt at June 30, 2016, 2015 and 2014, respectively, comprised of revenue bonds, notes payable and capital lease obligations as detailed in Note 8 to the basic consolidated financial statements. The District issued Revenue Bonds, Series 2016A to finance the optional redemption of Revenue Bonds, Series 1997A and Series 1997B, Series 2002A, Series 2010A and Series 2011A and finance certain seismic retrofit work to the District's facilities. The District's formal debt issuances are subject to limitations imposed by state law. In September 2016, Moody's assigned the District's Series 2016A, Ba3 with an outlook of negative.

Economic Factors on the Fiscal Year 2016 Budget and Beyond

Over the next five years, the District will continue to face challenges in the evolving landscape of the healthcare industry. The industry is moving towards value-based care which requires improved efficiency and quality and a shift of cost to consumers. As the industry migrates to a value-based system and new entrants force market innovation, the hospital-focused inpatient utilization rates continue to decline in many areas of the country. Other drivers of lower hospital utilization include focus on decreasing readmission rates, transitioning patients to observation status and increased use of care management teams.

Government payers have slowed on spending growth which is tempering top-line revenue growth. On top of the 2% sequestration cuts that were put in place in 2013, Medicare is looking for additional ways to cut costs by focusing on bundled payments (which considers a patient's full continuum of care) and quality-based reimbursement models which reward health care providers for their contributions to producing better health and penalizing providers who are not able to improve quality outcomes and reduce readmission rates. The Medicare value–based purchasing program includes measuring process-of-care measures, patient experience measures, patient outcome measures and efficiency measures. The District is working diligently to improve upon these quality metrics which in turn will reduce the risk of reimbursement cuts**.**

On the State level, the Affordable Care Act (ACA) has significantly increased the coverage for the Medi-Cal population which in turn has reduced the amount of uncompensated/self-pay care for hospitals across the state including the District. Medi-Cal eligibility has expanded to include all individuals and families with incomes up to 138% of the poverty level. As a result of the expanded coverage, Medi-Cal beneficiaries now make up nearly a third of California's 38-million population. Greater use of Medi-Cal managed care is likely to continue with the goals of improved quality and increased savings through reduced use of hospital services. In order to address the needs of the growing Medi-Cal population, the District is participating in the Public Hospital Redesign and Incentives in Medi-Cal (PRIME) program which focuses on addressing the overall needs of Medi-Cal beneficiaries and care coordination for at-risk populations. Contingent upon meeting the requirements of the project, the District is eligible for incentive payments throughout the implementation of the 5-year project plan.

At this time, it is unknown what the impact of the recent 2016 presidential election will have on the healthcare industry. Pundits have suggested that there will not be a complete overhaul of the ACA, but instead a repeal of several parts of the ACA.

Despite some of the challenges the hospital is facing from government payers, the District has been actively negotiating its insurance contracts to ensure that it maintains competitive reimbursement rates over the coming years. The hospital has also been focused on ensuring that it is able to maximize the amount of supplemental funding that it qualifies for, such as the LA County Measure B trauma center funds. Furthermore, the District is actively engaged in service line analysis to identify opportunities for growth in profitable services, as well as evaluating unprofitable services for cost improvements, better process efficiencies, and/or elimination of services if need be.

The District will be committing significant capital expenditures in the coming years on projects such as the new Electronic Medical Records system, seismic retrofitting and Emergency Department renovation. The hospital will also continue to invest in routine capital improvements and equipment as needs arise. In order to move forward on these projects, the hospital will have continued focus on ways to improve top-line revenue growth, reduce expenses and maintain fiscal discipline.

Contacting the District's Financial Management

This financial report is designed to provide the District's patients, suppliers, community members and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the District's administration by telephoning 661.949.5533.

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF NET POSITION

	June 30, 2016	June 30, 2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	$ 18,653,687	$ 12,418,769
Short-term investments	52,929,399	45,930,235
Restricted cash and investments, current	1,894,596	2,243,184
Patient accounts receivable, net of estimated uncollectible accounts of $23,038,994 in 2016 and $28,334,916 in 2015	56,510,329	51,119,906
Other receivables, net of estimated uncollectible accounts of $818,581 in 2016 and $810,704 in 2015	2,269,516	2,623,182
Supplies inventory	5,704,179	5,837,487
Prepaid expenses and other current assets	2,315,491	2,485,569
Estimated third-party payor settlements	6,787,283	3,443,401
Total current assets	147,064,480	126,101,733
NONCURRENT CASH AND INVESTMENTS		
Held by trustee	17,881,445	13,734,648
Less amounts required to meet current obligations	1,857,483	2,206,127
	16,023,962	11,528,521
Other long-term investments	50,223,139	56,295,243
Total noncurrent cash and investments	66,247,101	67,823,764
CAPITAL ASSETS, net	163,200,617	174,403,464
OTHER ASSETS	109,976	1,331,387
Total noncurrent assets	229,557,694	243,558,615
Total assets	376,622,174	369,660,348
DEFERRED OUTFLOWS OF RESOURCES		
Net difference between expected and actual earnings on pension plan investments (note 10)	20,518,297	4,024,740
Deferred loss on debt defeasance (note 8)	4,633,772	-
Total deferred outflows of resources	25,152,069	4,024,740
Total assets and deferred outflows of resources	$ 401,774,243	$ 373,685,088

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF NET POSITION (CONTINUED)

	June 30, 2016	June 30, 2015
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 18,270,111	$ 15,283,773
Accrued payroll and related expenses	15,229,746	19,387,330
Current maturities of long-term debt	2,298,989	7,076,527
Accrued self-insurance liabilities, current portion	7,698,318	7,458,211
Accrued interest payable	1,857,483	2,206,127
Total current liabilities	45,354,647	51,411,968
LONG-TERM DEBT, net of current portion	130,547,806	116,378,863
ACCRUED SELF-INSURANCE LIABILITIES, net of current portion	14,889,092	14,217,000
PENSION AND OPEB LIABILITIES	133,187,804	120,352,845
Total liabilities	323,979,349	302,360,676
DEFERRED INFLOWS OF RESOURCES		
Differences between actual and expected pension experience (note 10)	4,131,172	-
NET POSITION		
Net investment in capital assets	52,869,039	64,682,722
Restricted, expendable for:		
Workers' compensation collateral	37,113	37,057
Specific operating activities	164,202	681,360
Restricted, non-expendable for minority interests	521,594	459,004
Unrestricted	20,071,774	5,464,269
Total net position	73,663,722	71,324,412
Total liabilities, deferred inflows of resources and net position	$ 401,774,243	$ 373,685,088

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended June 30,	
	2016	2015
OPERATING REVENUES		
Net patient service revenue, net of provision for uncollectible accounts of $20,577,461 in 2016 and $24,611,894 in 2015	$ 409,093,539	$ 394,261,397
Other revenue	5,009,054	7,373,893
Total operating revenues	414,102,593	401,635,290
OPERATING EXPENSES		
Salaries and wages	172,259,404	168,231,374
Employee benefits	58,082,020	56,316,135
Fees to individuals and organizations	29,591,126	27,451,772
Purchased services	30,549,374	24,323,696
Supplies and other expenses	101,839,536	102,771,534
Depreciation and amortization	15,068,425	14,503,489
Total operating expenses	407,389,885	393,598,000
OPERATING INCOME	6,712,708	8,037,290
NONOPERATING REVENUES (EXPENSES)		
Grant revenue and contributions	3,560,008	3,689,744
Investment income	1,216,713	986,035
Bond issuance costs	(2,420,567)	-
Interest expense	(6,729,552)	(5,798,209)
Total nonoperating expenses, net	(4,373,398)	(1,122,430)
Change in net position	2,339,310	6,914,860
NET POSITION, Beginning of year, as previously reported	71,324,412	116,042,975
Cumulative effect of change in accounting principle (note 10)	-	(51,633,423)
NET POSITION, Beginning of year, as restated	71,324,412	64,409,552
NET POSITION, End of year	$ 73,663,722	$ 71,324,412

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	$ 400,375,079	$ 395,971,124
Payments to suppliers and contractors	(151,217,119)	(154,809,399)
Payments to employees	(233,716,821)	(220,157,671)
Other receipts and payments, net	5,362,720	8,980,762
Net cash provided by operating activities	20,803,859	29,984,816
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from grants and contributions	3,544,163	3,724,188
Net cash provided by noncapital financing activities	3,544,163	3,724,188
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(9,125,455)	(14,591,456)
Proceeds from issuance of long-term debt, including premium	131,611,550	-
Principal repayments on long-term debt	(6,550,197)	(7,145,552)
Deposit to escrow account for advance refunding	(121,485,818)	-
Interest payments on long-term debt	(6,285,417)	(7,245,592)
Debt issuance costs paid	(2,420,567)	-
Net cash used in capital and related financing activities	(14,255,904)	(28,982,600)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(39,245,866)	(43,928,420)
Proceeds from sale of investments	34,171,953	34,610,388
Interest and dividends received on investments	1,216,713	986,035
Net cash used in investing activities	(3,857,200)	(8,331,997)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,234,918	(3,605,593)
CASH AND CASH EQUIVALENTS, Beginning of year	12,418,769	16,024,362
CASH AND CASH EQUIVALENTS, End of year	$ 18,653,687	$ 12,418,769

See accompanying notes of independent auditors.

	Years Ended June 30, 2016	Years Ended June 30, 2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 6,712,708	$ 8,037,290
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for bad debts	20,577,461	24,611,894
Depreciation and amortization	15,068,425	14,503,489
Loss on disposal of assets	313,867	114,821
Loss on impairment of assets	5,174,550	-
Changes in assets and liabilities:		
Patient accounts receivable, net	(25,952,039)	(23,794,210)
Other receivables, net	353,666	1,606,869
Supplies inventory and prepaid expenses and other current assets	303,386	(127,487)
Estimated third-party payor settlements	(3,343,882)	901,643
Other assets	1,221,411	(229,871)
Deferred outflows and inflows of resources	(12,362,385)	(4,024,740)
Accounts payable and accrued liabilities	3,147,117	1,131,058
Accrued payroll and related expenses	(4,157,584)	1,755,593
Accrued self-insurance liabilities	912,199	(780,528)
Pension and OPEB liabilities	12,834,959	6,278,995
Net cash provided by operating activities	$ 20,803,859	$ 29,984,816
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Capital expenditures included in accounts payable	$ -	$ 160,779
Capital assets acquired through capital leases	$ 305,900	$ 115,102

Note 1 – Nature of Operations and Reporting Entity

Antelope Valley Healthcare District (the "District") is a health care district and political subdivision of the state of California, organized and existing under the provisions of the Local Health Care District Law of the state of California. The District is located in Lancaster, California, and is governed by a five-member Board of Directors elected by voters within the District.

The District primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Antelope Valley, High Desert and eastern Sierra areas. It also operates a home health agency in the same geographic areas.

These financial statements present the District and the following blended component units:

- The Antelope Valley Outpatient Imaging Center, LLC (AVOIC) is a legally separate entity that operates two diagnostic imaging centers located in Lancaster, California and Palmdale, California with a December 31 year end. The District owns 70% of AVOIC and can unilaterally make operating decisions such as establishing a budget or issuing debt. The District has determined that AVOIC meets the criteria of a blended component unit under GASB Statement No. 61 as the governing bodies are substantially the same and because the operations are managed by the District similar to other hospital departments.

- The Gift Foundation of the Antelope Valley Health Care District d/b/a Antelope Valley Hospital Foundation (AVHF) is a 501(c)(3) tax exempt organization and is legally separate from the District and operates with a June 30 fiscal year end. Although the District does not appoint a voting majority of the AVHF's Board of Directors nor is the District financially accountable for AVHF, the District has determined that AVHF meets the criteria of a blended component unit in accordance with GASB Statement No. 61 as the economic resources earned and held by AVHF have historically been used for the direct benefit of the District.

- The Desert Hills Sleep Disorder Center, LLC (DHSDC) is a legally separate entity operating a sleep diagnostic facility in Lancaster, California. The District owns 60% of the DHSDC and can unilaterally make operating decisions such as establishing a budget or issuing debt. The District has determined that DHSDC meets the criteria of a blended component unit under GASB Statement No. 61 as the governing bodies are substantially the same and because the operations are managed by the District similar to other hospital departments. DHSDC ceased operations during the fiscal year ended June 30, 2015 and all operating equipment was sold or disposed.

The other members' interest in AVOIC and DHSDC is accounted for as a minority interest in the District's financial statements. All significant intercompany accounts and transactions have been eliminated.

Note 1 – Nature of Operations and Reporting Entity (continued)

Condensed component unit information for each of the District's blended component units for the year ended June 30, 2016 is as follows:

Condensed Statements of Net Position
As of June 30, 2016

	AVOIC	AVHF	DHSDC
ASSETS			
Patient accounts receivable, net	$ 2,421,825	$ -	$ -
Other current assets	574,770	4,168,594	14,177
Capital assets, net	584,651	-	-
Total assets	$ 3,581,246	$ 4,168,594	$ 14,177
LIABILITIES			
Due to the District	$ (12,935)	$ 46,443	$ 81,607
Other current liabilities	1,569,083	-	-
Long-term liabilities	196,529	-	-
Total liabilities	1,752,677	46,443	81,607
NET POSITION			
Net investment in capital assets	253,862	-	-
Restricted, expendable	-	-	-
Restricted, nonexpendable	1,000,000	-	280,000
Unrestricted	574,707	4,122,151	(347,430)
Total net position	1,828,569	4,122,151	(67,430)
Total liabilities and net position	$ 3,581,246	$ 4,168,594	$ 14,177

Note 1 – Nature of Operations and Reporting Entity (continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

	AVOIC	AVHF	DHSDC
OPERATING REVENUE			
Net patient service revenue	$ 15,317,708	$ -	$ -
Other	17,385	-	-
Total operating revenues	15,335,093	-	-
OPERATING EXPENSES			
Salaries, wages and employee benefits	4,457,903	77,025	-
Purchased services and professional fees	6,702,822	3,900	780
Other operating expenses	3,177,766	138,242	170
Depreciation and amortization	763,117	-	-
Total operating expenses	15,101,608	219,167	950
OPERATING INCOME (LOSS)	233,485	(219,167)	(950)
NONOPERATING REVENUES (EXPENSES)			
Grant revenue and contributions	-	5,578	-
Investment income	-	56,876	-
Interest expense	(23,563)	-	-
Total nonoperating revenues (expenses), net	(23,563)	62,454	-
Change in net position	209,922	(156,713)	(950)
Beginning net position	1,618,647	4,278,864	(66,480)
Ending net position	$ 1,828,569	$ 4,122,151	$ (67,430)

Note 1 – Nature of Operations and Reporting Entity (continued)

Condensed Statements of Cash Flows
For the Year Ended June 30, 2016

	AVOIC	AVHF	DHSDC
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from and on behalf of patients	$ 15,180,094	$ -	$ -
Payments to suppliers and contractors	(10,058,713)	(160,518)	(950)
Payments to employees	(4,377,289)	(77,025)	-
Other receipts and payments, net	17,385	1,064,875	-
Net cash provided by (used in) operating activities	761,477	827,332	(950)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(137,944)	-	-
Principal repayments on long-term debt	(535,345)	-	-
Interest payments on long-term debt	(23,563)	-	-
Net cash used in capital and related financing activities	(696,852)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received on investments	-	-	-
Net cash provided by investing activities	-	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	64,625	827,332	(950)
CASH AND CASH EQUIVALENTS, Beginning of year	325,292	3,341,263	15,126
CASH AND CASH EQUIVALENTS, End of year	$ 389,917	$ 4,168,595	$ 14,176

Note 1 – Nature of Operations and Reporting Entity (continued)

Condensed component unit information for each of the District's blended component units for the year ended June 30, 2015 is as follows:

Condensed Statements of Net Position
As of June 30, 2015

	AVOIC	AVHF	DHSDC
ASSETS			
Patient accounts receivable, net	$ 2,284,211	$ -	$ -
Other current assets	444,726	4,343,683	15,127
Capital assets, net	903,924	-	-
Total assets	$ 3,632,861	$ 4,343,683	$ 15,127
LIABILITIES			
Due to the District	$ 62,187	$ 64,819	$ 81,607
Other current liabilities	1,875,236	-	-
Long-term liabilities	76,791	-	-
Total liabilities	2,014,214	64,819	81,607
NET POSITION			
Net investment in capital assets	343,690	-	-
Restricted, expendable	-	522,570	-
Restricted, nonexpendable	1,000,000	-	280,000
Unrestricted	274,957	3,756,294	(346,480)
Total net position	1,618,647	4,278,864	(66,480)
Total liabilities and net position	$ 3,632,861	$ 4,343,683	$ 15,127

Note 1 – Nature of Operations and Reporting Entity (continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2015

	AVOIC	AVHF	DHSDC
OPERATING REVENUE			
Net patient service revenue	$ 14,222,902	$ -	$ -
Other	21,151	-	-
Total operating revenues	14,244,053	-	-
OPERATING EXPENSES			
Salaries, wages and employee benefits	4,307,691	106,075	-
Purchased services and professional fees	6,223,598	-	2,200
Other operating expenses	3,252,172	185,721	1,755
Depreciation and amortization	658,982	-	-
Total operating expenses	14,442,443	291,796	3,955
OPERATING LOSS	(198,390)	(291,796)	(3,955)
NONOPERATING REVENUES (EXPENSES)			
Grant revenue and contributions	-	408,869	-
Investment income	49	77,665	-
Interest expense	(49,086)	-	-
Total nonoperating revenues (expenses), net	(49,037)	486,534	-
Change in net position	(247,427)	194,738	(3,955)
Beginning net position	1,866,074	4,084,126	(62,525)
Ending net position	$ 1,618,647	$ 4,278,864	$ (66,480)

Note 1 – Nature of Operations and Reporting Entity (continued)

Condensed Statements of Cash Flows
For the Year Ended June 30, 2015

	AVOIC	AVHF	DHSDC
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from and on behalf of patients	$ 14,318,950	$ -	$ -
Payments to suppliers and contractors	(9,549,454)	(312,894)	(3,955)
Payments to employees	(4,356,983)	(106,074)	-
Other receipts and payments, net	21,151	508,615	-
Net cash provided by (used in) operating activities	433,664	89,647	(3,955)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(20,880)	-	-
Principal repayments on long-term debt	(556,486)	-	-
Interest payments on long-term debt	(49,086)	-	-
Net cash used in capital and related financing activities	(626,452)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received on investments	49	-	-
Net cash provided by investing activities	49	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(192,739)	89,647	(3,955)
CASH AND CASH EQUIVALENTS, Beginning of year	518,031	3,251,616	19,081
CASH AND CASH EQUIVALENTS, End of year	$ 325,292	$ 3,341,263	$ 15,126

Note 2 – Summary of Significant Accounting Policies

Basis of accounting and presentation – The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles for healthcare organizations and the State Controller's Minimum Audit Requirements and Reporting Guidelines, and are presented in accordance with the reporting model as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The District follows the business-type activities' requirements of GASB Statement No. 34 and No. 63. This approach requires the following components of the District's financial statements:

GASB Statement No. 34 and subsequent amendments including GASB Statement No. 63 as discussed below, established standards for external financial reporting and requires that resources be classified for accounting and reporting purposes into the following net position categories:

Net investment in capital assets – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Expendable – Assets whose use by the District are subject to externally imposed constraints that can be fulfilled by actions of the District pursuant to those constraints or that expire by the passage of time. Restricted resources are used in accordance with the District's policies. When both restricted and unrestricted resources are available for use, the determination to use restricted or unrestricted resources is made on a case-by-case basis.

Restricted net position – Nonexpendable – Assets whose use by the District are not available as they represent the net position of minority interests of AVOIC and DHSDC.

Unrestricted net position – This amount represents the amount of net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Reclassifications – Certain prior year amounts were reclassified to conform to the current year presentation.

Cash and cash equivalents – The District considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consisted primarily of money market accounts with brokers at June 30, 2016 and 2015.

Note 2 – Summary of Significant Accounting Policies (continued)

Investments and investment income – The District's investments are carried at fair value. Fair value is determined using quoted market prices. Investment income includes dividend and interest income, realized gains and losses on investments and the net change for the year in the fair value of investments carried at fair value. Amounts required to meet current debt service obligations are classified within short-term investments.

Patient accounts receivable – The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the District bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Supplies inventory – Supplies inventory are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital assets – Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. The capitalization threshold (the dollar value above which asset acquisitions are added to the capital asset accounts) is $5,000 for all asset classifications and for items with a useful life of more than two years.

Depreciation is computed using the straight-line method over the estimated useful life of each asset.

Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the District:

Land improvements	2-25 years
Buildings and leasehold improvements	5-50 years
Equipment	3-30 years

The District capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowings. Total interest capitalized and incurred during fiscal years ended June 30, 2016 and 2015 was as follows:

	2016	2015
Interest capitalized	$ 83,419	$ 1,360,956
Interest charged to expense	6,729,552	5,798,209
Total interest incurred	$ 6,812,971	$ 7,159,165

Note 2 – Summary of Significant Accounting Policies (continued)

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent upon the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statements of revenues, expenses, and changes in net position. The District recognized an impairment loss of approximately $5,174,550 during the year ended June 30, 2016 related to the abandonment of certain construction projects. No impairment losses were recognized during the year ended June 30, 2015.

Compensated absences – District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits and are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Pensions – For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Antelope Valley Hospital Medical Center Retirement Plan (Plan) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and workers' compensation claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District is self-insured for a portion of its exposure to risk of loss from workers' compensation, malpractice claims, and employee health, dental and accident benefits. Annual estimated provisions are accrued based on actuarially determined amounts or management's estimate and includes an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Note 2 – Summary of Significant Accounting Policies (continued)

Net patient service revenue – The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

During the year ended June 30, 2016, the District increased its estimated amounts due from third-party payers and increased net patient service revenue by approximately $2,500,000 due to changes in accounting estimates related to prior periods. During the year ended June 30, 2015, the District increased its estimated amounts due from third-party payers and increased net patient service revenue by approximately $3,900,000 due to changes in accounting estimates related to prior periods.

Normal estimation differences between subsequent cash collections on patient accounts receivable and net patient accounts receivable estimated in the prior year are reported as adjustments to net patient service revenue in the current period. During the year ended June 30, 2016, the District increased its net patient service revenue by approximately $1,300,000 due to changes in accounting estimates related to prior periods. Differences in 2015 were not significant.

Charity care – The District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income taxes – The District is generally exempt from federal and state income taxes under Section 116 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income.

Grant and contribution income – During 2016 and 2015, the District received approximately $3,029,000 and $2,850,000 respectively in grant revenues from the federal government. These funds were recognized as non-operating revenue when the funds were expended for the purpose specified by the grantee. The grant expenditures are recorded as operating expenses. In addition, during 2016 and 2015 the District received approximately $531,000 and $525,000, respectively, in other grant and contribution income. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes.

Note 2 – Summary of Significant Accounting Policies (continued)

Operating revenues and expenses – The statements of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the District's principal activity. Non-exchange revenues, including grants, contributions and income (losses) from investments, are reported as non-operating revenues. Operating expenses include all expenses incurred to provide health care services, other than financing costs.

Bond Issuance Costs – The District expenses bond issuance costs in the period such costs are incurred in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of accounting pronouncements in current year –During the year ended June 30, 2016, the District adopted GASB Statement No. 72, *Fair Value Measurement and Application* which requires the District to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or income approach. There was no material impact on the District's consolidated financial statements as a result of the implementation of GASB Statement No. 72.

Future Governmental Accounting Standards Board Statements

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 74 intends to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. GASB Statement No. 74 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This guidance is effective for the District in the year ended June 30, 2017. The District is currently assessing the impact of this standard on the District's consolidated financial statements.

Note 2 – Summary of Significant Accounting Policies (continued)

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of GASB Statement No. 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB Statement No. 75 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This guidance is effective for the District in the year ended June 30, 2018. The District is currently assessing the impact of this standard on the District's consolidated financial statements.

Note 3 – Net Patient Service Revenue

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. These payment arrangements include:

Medicare – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, acuity and other factors. The District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. The Medicare administrative contractor has audited the District's cost reports through June 30, 2014.

Medi-Cal – Inpatient acute services rendered to Medi-Cal program beneficiaries are paid at a prospectively determined rate per discharge (APR-DRG). These rates vary according to a patient classification system based on clinical, diagnostic and other factors. Outpatient services are reimbursed based upon a fee schedule per procedure, test or service.

Approximately 66% and 62% of net patient service revenue is from participation in the Medicare and state-sponsored Medi-Cal programs for the years ended June 30, 2016 and 2015, respectively. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Note 3 – Net Patient Service Revenue (continued)

The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 4 – Deposits, Investments and Investment Income

Cash and investments as of June 30 consist of the following:

	2016	2015
Cash on hand	$ 3,925	$ 8,805
Deposits	33,985,229	22,484,383
Investments	105,735,629	105,922,764
Total cash and investments	$ 139,724,783	$ 128,415,952

The carrying values of deposits and investments shown above are included in the statements of net position as follows:

	2016	2015
Cash and cash equivalents	$ 18,653,687	$ 12,418,769
Short-term investments	52,929,399	45,930,235
Restricted cash and investments, current	1,894,596	2,243,184
Noncurrent cash and investments	66,247,101	67,823,764
Total cash and investments	$ 139,724,783	$ 128,415,952

Deposits – Custodial credit risk is the risk that, in the event of a bank failure, an entity's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law which requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts.

At June 30, 2016 and 2015 approximately $15,631,000 and $9,256,000 of the District's bank balances respectively, were insured for the first $250,000 or covered by collateral held in the pledging bank's trust department in the name of the District. These amounts exclude deposits held by the District's blended component units with carrying values of approximately $4,573,000 and $3,682,000 at June 30, 2016 and 2015, respectively. As nongovernmental entities, the blended component units are not subject to the collateralization requirements. The blended component units' cash accounts are uncollateralized and exceeded federally insured limits by approximately $3,330,000 and $2,316,000 at June 30, 2016 and 2015, respectively.

Note 4 – Deposits, Investments and Investment Income (continued)

Investments – Under provisions of the California Government Code, the District's investments are limited to certain types of investments. In general, the District may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury, U.S. agencies and instrumentalities, California agencies, negotiable certificates of deposit and in bank repurchase agreements. It may also invest to a limited extent in commercial paper, corporate and depository institution debt securities and mortgage-backed securities.

The framework for measuring fair value provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Investment in state investment pool – The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Note 4 – Deposits, Investments and Investment Income (continued)

Corporate bonds, U.S. Instrumentalities, and U.S. Treasury: Valued using pricing models maximizing the use of observable inputs for similar securities which includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, those corporate bonds are valued under a discounted cash flow approach that maximizes observable inputs, such as current yields or similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

The valuation methods used by the District may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the District believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table discloses the fair value hierarchy of the District's assets by level as of June 30, 2016:

		Fair Value Measurements		
	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
External investment pool - LAIF	$ 38,212,130	$ -	$ 38,212,130	$ -
U.S. instrumentalities	28,316,131	-	28,316,131	-
Corporate bonds	18,853,896	-	18,853,896	-
U.S. Treasury	17,756,184	-	17,756,184	-
Held by trustee:				
Corporate bonds	2,597,288	-	2,597,288	-
	$ 105,735,629	$ -	$ 105,735,629	$ -

The following table discloses the fair value hierarchy of the District's assets by level as of June 30, 2015:

		Fair Value Measurements		
	June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
External investment pool - LAIF	$ 38,114,006	$ -	$ 38,114,006	$ -
U.S. instrumentalities	27,215,170	-	27,215,170	-
Corporate bonds	18,787,819	-	18,787,819	-
U.S. Treasury	18,088,792	-	18,088,792	-
Held by trustee:				
Corporate bonds	3,231,258	-	3,231,258	-
Foreign bonds	485,719	-	485,719	-
	$ 105,922,764	$ -	$ 105,922,764	$ -

Note 4 – Deposits, Investments and Investment Income (continued)

The District had the following investments and maturities at June 30, 2016:

Investment Type	Fair Value	Investment Maturities (In Years) Less Than 1	1-5	More Than 5
External investment pool - LAIF	$ 38,212,130	$ 38,212,130	$ -	$ -
U.S. instrumentalities	28,316,131	2,008,316	26,307,815	-
Corporate bonds	18,853,896	8,661,050	10,192,846	-
U.S. Treasury	17,756,184	3,757,404	13,998,780	-
Held by trustee:				
Corporate bonds	2,597,288	1,939,927	657,361	-
	$ 105,735,629	$ 54,578,827	$ 51,156,802	$ -

The District had the following investments and maturities at June 30, 2015:

Investment Type	Fair Value	Investment Maturities (In Years) Less Than 1	1-5	More Than 5
External investment pool - LAIF	$ 38,114,006	$ 38,114,006	$ -	$ -
U.S. instrumentalities	27,215,170	4,500,828	22,714,342	-
Corporate bonds	18,787,819	2,888,566	15,899,253	-
U.S. Treasury	18,088,792	-	18,088,792	-
Held by trustee:				
Corporate bonds	3,231,258	587,762	2,643,496	-
Foreign bonds	485,719	-	485,719	-
	$ 105,922,764	$ 46,091,162	$ 59,831,602	$ -

Interest rate risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy generally limits its investment portfolio to maturities of less than ten years unless approved by the Board of Directors. The external investment pool is presented as an investment with a maturity of less than one year because such investments are redeemable in full immediately.

Credit risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy generally limits its investments to a credit rating of A or the equivalent by a nationally recognized statistical rating organization. The District's investments not directly guaranteed by the U.S. government were rated as follows at June 30, 2016 and 2015:

Investment Type	Moody's	S&P
External investment pool - LAIF	Not Rated	Not Rated
U.S. instrumentalities	Aaa	AA+
Corporate bonds	Aa1 to A2	A to AA+
U.S. Treasury	Aaa	Not Rated

Note 4 – Deposits, Investments and Investment Income (continued)

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the District's investments as disclosed in the table above at June 30, 2016 and 2015 are held by custodians in other than the District's name. The District's investment policy for custodial credit risk requires compliance with the provisions of state law.

Concentration of credit risk – The District places no limit on the amount that may be invested in any one issuer. The following investments exceeded 5% of the total fair value of all investments at June 30:

	2016		2015	
Investment Type	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
U.S. Treasury Securities	$ 17,756,184	17%	$ 18,088,792	18%
Federal Farm Credit Banks	8,408,851	8%	8,393,726	8%
Federal Home Loan Bank	7,958,792	8%	4,918,793	5%
Federal National Mortgage Association	7,929,961	8%	3,502,508	3%
Federal Home Loan Mortgage Corporation	4,018,347	4%	10,400,143	10%

Investment income – Investment income for the years ended June 30 consisted of:

	2016	2015
Interest, dividends and realized gains on sales of investments	$ 989,530	$ 894,971
Net increase in fair value of investments	227,183	91,064
	$ 1,216,713	$ 986,035

Note 5 – Patient Accounts Receivable

The District grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Gross patient accounts receivable at June 30 consisted of:

	2016	2015
Medicare	26 %	27 %
Medi-Cal	40	36
Other third-party and commercial payor	27	28
Self pay	7	9
Total	100 %	100 %

Note 6 – Capital Assets

Capital assets activity for the years ended June 30, 2016 was as follows:

	Beginning Balance June 30, 2015	Additions	Deletions	Transfers	Ending Balance June 30, 2016
Land	$ 9,869,241	$ -	$ -	$ -	$ 9,869,241
Land improvements	23,718,622	28,205	-	178,640	23,925,467
Buildings and leasehold improvements	174,284,008	323,774	-	57,123	174,664,905
Equipment	188,295,535	4,783,402	(771,488)	84,707	192,392,156
Construction in progress	6,561,015	4,218,614	(5,476,932)	(320,470)	4,982,227
	402,728,421	9,353,995	(6,248,420)	-	405,833,996
Less accumulated depreciation:					
Land improvements	10,332,356	928,483	-	-	11,260,839
Buildings and leasehold improvements	68,371,303	4,425,912	-	-	72,797,215
Equipment	149,621,298	9,714,030	(760,003)	-	158,575,325
	228,324,957	15,068,425	(760,003)	-	242,633,379
	$ 174,403,464	$ (5,714,430)	$ (5,488,417)	$ -	$ 163,200,617

Capital assets activity for the years ended June 30, 2015 was as follows:

	Beginning Balance June 30, 2014	Additions	Deletions	Transfers	Ending Balance June 30, 2015
Land	$ 9,869,241	$ -	$ -	$ -	$ 9,869,241
Land improvements	23,684,305	34,317	-	-	23,718,622
Buildings and leasehold improvements	138,564,440	32,210	-	35,687,358	174,284,008
Equipment	179,570,928	4,730,833	(588,631)	4,582,405	188,295,535
Construction in progress	41,511,874	5,796,371	(477,467)	(40,269,763)	6,561,015
	393,200,788	10,593,731	(1,066,098)	-	402,728,421
Less accumulated depreciation:					
Land improvements	9,316,421	1,015,935	-	-	10,332,356
Buildings and leasehold improvements	64,586,104	3,785,199	-	-	68,371,303
Equipment	140,870,220	9,297,332	(546,254)	-	149,621,298
	214,772,745	14,098,466	(546,254)	-	228,324,957
	$ 178,428,043	$ (3,504,735)	$ (519,844)	$ -	$ 174,403,464

Construction commitments for various construction projects were not significant as of June 30, 2016 and 2015.

Note 7 – Self-Insurance Liabilities

Workers' compensation claims – The District is self-insured for the first $1,000,000 per occurrence of workers' compensation risks. The District purchases commercial insurance coverage above the self-insurance limits. Losses from asserted and unasserted claims identified under the District's incident reporting system are actuarially determined based on the District's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. These unpaid claim liabilities were discounted at 1.7% and 4.0% in 2016 and in 2015, respectively, to account for the time value of money to determine the current estimated liabilities as reflected below. It is reasonably possible that the District's estimate of losses will change by a material amount in the near term. Activity in the District's accrued workers' compensation claims liability during 2016 and 2015 is summarized as follows:

	2016	2015
Balance, beginning of the year	$ 12,554,000	$ 13,476,141
Current year claims incurred and changes in estimates for claims incurred in the prior year	4,046,703	2,607,490
Claims and expenses paid	(3,507,704)	(3,529,631)
Balance, end of year	$ 13,092,999	$ 12,554,000

Medical malpractice claims – The District is self-insured for medical malpractice claims for the first $750,000 per incident with a $4,000,000 annual aggregate. The District also maintains excess liability coverage for claims in excess of $20,000,000. Insurance coverage is on a claims-made basis.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Annual estimated provisions are accrued based on the District's past experience as well as other considerations, including the nature of the claim or incident and relevant trend factors. Losses from asserted and unasserted claims identified under the District's incident reporting system are actuarially determined based on the District's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. These unpaid claim liabilities were discounted at 1.7% and 4.0% in 2016 and in 2015, respectively, to account for the time value of money to determine the current estimated liabilities as reflected below. It is reasonably possible that this estimate could change materially in the near term.

Note 7 – Self-Insurance Liabilities (continued)

Activity in the District's accrued medical malpractice claims liability during 2016 and 2015 is summarized as follows:

	2016	2015
Balance, beginning of the year	$ 7,644,000	$ 7,812,000
Current year claims incurred and changes in estimates for claims incurred in the prior years	1,089,904	1,145,327
Claims and expenses paid	(1,211,904)	(1,313,327)
Balance, end of year	$ 7,522,000	$ 7,644,000

Accrued medical claims – The District provides certain health and dental benefits to enrollees that serve under contract to the hospital. The cost of medical services provided to these enrollees is accrued in the period that the services are rendered. A provision has been made for claims in process of review and for claims incurred but not reported at year-end. The amount of this liability is computed using historical claims payment experience, and a review of experience for similar plans. Amounts accrued totaled approximately $1,972,000 and $1,477,000 at June 30, 2016 and 2015, respectively, and are included in accrued self-insurance liabilities on the consolidated statements of net position.

Estimates are adjusted based upon changes in experience and such adjustments are reflected in current operations. Although considerable variability is inherent in such estimates, there is at least a possibility that recorded estimates will change by a material amount in the near term.

Note 8 – Long-Term Obligations

The following is a summary of long-term obligation transactions for the District for the years ended June 30:

	2016				
	Beginning Balance	Additions	Payments and Reductions	Ending Balance	Due Within 1 Year
Series 2016A District Revenue Bonds (A)	$ -	$ 126,120,000	$ -	$ 126,120,000	$ 1,815,000
Series 2002A District Revenue Bonds (B)	55,000,000	-	(55,000,000)	-	-
Series 1997A District Insured Refunding Revenue Bonds (C)	16,795,000	-	(16,795,000)	-	-
Series 1997B District Insured Revenue Bonds (D)	11,955,000	-	(11,955,000)	-	-
Series 2010A Fixed Rate Revenue Bonds (E)	19,800,126	-	(19,800,126)	-	-
Series 2011A Fixed Rate Revenue Bonds (F)	17,525,000	-	(17,525,000)	-	-
Capital lease obligations	2,380,264	305,900	(1,389,902)	1,296,262	483,989
Unamortized bond premium	-	5,491,550	(61,017)	5,430,533	-
Total long-term debt	$ 123,455,390	$ 131,917,450	$ (122,526,045)	$ 132,846,795	$ 2,298,989

Note 8 – Long-Term Obligations (continued)

	2015				
	Beginning Balance	Additions	Payments	Ending Balance	Due Within 1 Year
Series 2002A District Revenue Bonds (B)	$ 55,000,000	$ -	$ -	$ 55,000,000	$ -
Series 1997A District Insured Refunding Revenue Bonds (C)	19,095,000	-	(2,300,000)	16,795,000	2,420,000
Series 1997B District Insured Revenue Bonds (D)	12,660,000	-	(705,000)	11,955,000	745,000
Series 2010A Fixed Rate Revenue Bonds (E)	21,874,150	-	(2,074,024)	19,800,126	2,273,527
Series 2011A Fixed Rate Revenue Bonds (F)	17,825,000	-	(300,000)	17,525,000	300,000
Notes payable	94,028	-	(94,028)	-	-
Capital lease obligations	3,937,662	115,102	(1,672,500)	2,380,264	1,338,000
Total long-term debt	$ 130,485,840	$ 115,102	$ (7,145,552)	$ 123,455,390	$ 7,076,527

Revenue bonds payable

A. Due March 1, 2046, principal payable annually beginning March 1, 2017 plus semiannual interest payments at interest rates from 5.00% to 5.25%, secured by pledge of the District's gross revenues and trustee held assets. The agreement is subject to certain financial covenants including minimum liquidity and net income to annual debt service ratio. The bonds were issued at a premium totaling $5,491,550 which is being amortized over the life of the bonds. The District recognized $61,017 of amortization related to the bond premium during the year ended June 30, 2016. As of June 30, 2016, unamortized bond premium totaled $5,430,533 which is included in long-term debt on the consolidated statements of net position.
B. Due September 1, 2017; principal payable at maturity plus interest at a rate of 5.25%; secured by a pledge of the District's gross revenues and trustee-held assets.
C. Due January 1, 2020; principal payable annually beginning January 1, 2013 plus semiannual interest payments at interest rates from 5.00% to 5.20%; secured by pledge of the District's gross revenues and trustee-held assets.
D. Due January 1, 2027; principal payable annually plus semiannual interest payments at a fixed rate of 5.20%; secured by pledge of the District's gross revenues and trustee-held assets.
E. Due December 1, 2020; private placement bond issuances of $25,000,000. Principal and interest payable monthly at fixed interest rates 4.82%; secured by pledge of the District's gross revenue and trustee-held assets.
F. Due March 1, 2036; the agreement was executed via three separate bond issuances of $10,000,000, $3,620,000, and $5,105,000. Principal payable annually plus semiannual interest payment at fixed interest rates from 6.875% to 7.25%, respectively; secured by pledge of the District's gross revenue and trustee-held assets.

The indenture agreements for the Series 2002A Bonds, the Series 1997A and 1997B Bonds, the Series 2010A Bonds, Series 2011A Bonds and the Series 2016A Bonds require that certain funds be established with the trustees. Accordingly, these funds are included as assets held by the trustee for debt service and capital acquisitions in the statements of net position.

Note 8 – Long-Term Obligations (continued)

The indenture agreements for the Series 1997A and 1997B Bonds, the Series 2002A Bonds, the Series 2010A Bonds, Series 2011A Bonds and Series 2016A Bonds also place certain limits on the incurrence of additional borrowings and require that the District satisfy certain measures of financial performance as long as the bonds are outstanding.

Defeasance of debt – During the year, the District issued $126,120,000 Series 2016A bonds at a premium of $5,491,550. Proceeds of $21,161,975 are being used to finance costs associated with seismic improvements to certain District buildings, fund a Bond Reserve Account, and pay the cost of issuing the bonds. Proceeds in the amount of $121,485,818 were placed in an irrevocable trust to provide for future debt service payments on the Series 1997A, Series 1997B, Series 2002A, Series 2010A, and Series 2011A bonds ("defeased bonds"). Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. As of June 30, 2016, $17,225,000 of outstanding bonds are considered legally defeased. The remaining defeased bonds were redeemed by the trustee during the year ended June 30, 2016. This advance refunding was undertaken to extend debt service payments over the next 30 years which increased total debt service payments by approximately $105,235,000 and resulted in an economic loss (difference between present value of debt service payments of old debt and new debt) of approximately $11,137,000. The reacquisition price exceeded the net carrying amount of the old debt by $5,342,375. This accounting loss, net of amortization, is being reported as deferred outflows of resources on the consolidated statements of net position and is amortized over the shorter of the life of the old bonds or the new bonds. The organization recognized $708,603 of amortization expense related to the deferred outflows of resources, which is included in interest expense on the consolidated statements of revenues, expenses and changes in net position.

The bond service requirements as of June 30, 2016, are as follows:

Years Ending June 30	Total to be Paid	Principal	Interest
2017	$ 7,928,087	$ 1,815,000	$ 6,113,087
2018	8,249,688	1,980,000	6,269,688
2019	8,250,688	2,080,000	6,170,688
2020	8,251,688	2,185,000	6,066,688
2021	8,252,438	2,295,000	5,957,438
Thereafter	206,250,988	115,765,000	90,485,988
Premium	5,430,533	5,430,533	-
Total	$ 252,614,110	$ 131,550,533	$ 121,063,577

Capital lease obligations – The District is obligated under leases for equipment that are accounted for as capital leases. The carrying value of assets under capital leases totaled approximately $17,083,000 and $16,721,000, at June 30, 2016 and 2015, respectively, net of accumulated depreciation of approximately $14,147,000 and $12,467,000 at June 30, 2016 and 2015, respectively.

Note 8 – Long-Term Obligations (continued)

The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 2.59% to 15.14% together with the present value of the future minimum lease payments as of June 30, 2016:

Years Ending June 30	
2017	$ 500,930
2018	358,831
2019	399,993
2020	70,443
2021	3,195
Total minimum lease payments	1,333,392
Less amount representing interest	37,130
Present value of future minimum lease payments	$ 1,296,262

Note 9 – Restricted Net Position

At June 30, 2016 and 2015 restricted expendable net position was available for the following purposes:

	2016	2015
Workers' compensation collateral	$ 37,113	$ 37,057
Specific operating activities	164,202	681,360
Total restricted expendable net position	$ 201,315	$ 718,417

Note 10 – Pension Plans

403(b) defined contribution plan – The Antelope Valley Hospital Medical Center Section 403(b) Retirement Plan (403(b) Plan) is a tax-deferred annuity plan that permits employees to accumulate retirement savings by making deferrals of their salary and permits the District to make non-elective contributions on behalf of eligible employees. Contributions are invested at the direction of the participants. The 403(b) Plan is administered by a board of trustees appointed by the District's governing body. The 403 (b) Plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the 403 (b) Plan document and were established and can be amended by action of the District's governing body. There were no contributions made by the District during the fiscal years ended June 30, 2016 or 2015.

Note 10 – Pension Plans (continued)

Defined benefit pension plan – The Antelope Valley Hospital Medical Center Retirement Plan (Plan) is a single-employer defined benefit pension plan established by the District and administered by the Plan's board of trustees who are appointed by the District's governing body. The authority to establish and amend benefit provisions is vested in the District's governing body. The Plan issues publicly available stand-alone financial statements and required supplementary information for the Plan. The report may be obtained by writing to the Plan at 1600 West Avenue J, Lancaster, California 93534, or by calling 661.949.5533.

Effective July 1, 2014, the Plan implemented the requirements of the California Public Employees' Pension Reform Act of 2013 (PEPRA). In accordance with the new provisions, certain members make contributions of 3.75% of their eligible compensation to the Plan each pay period.

The District implemented GASB Statement No. 68 effective July 1, 2014. GASB Statement No. 68, among other provisions, amended prior guidance with respect to the reporting of pensions. GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows/inflows of resources, and expense/expenditures. For defined benefit pensions, the District's net pension liability (asset) was not previously recorded on the consolidated statements of net position. GASB Statement No. 68 requires that accounting changes adopted to conform to the provisions of the Statement be applied retroactively by restating financial statements.

Benefits provided – The Plan is a noncontributory defined-benefit plan that covers substantially all employees and provides for retirement, death, and disability benefits to Plan members and their beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with ten years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

Benefit formula	1.6% @ 65
Benefit vesting schedule	5 years service
Benefit payments	Monthly for life
Retirement age	55 - 65
Monthly benefits, as a % of eligible compensation	1.6% to 1.7%

Note 10 – Pension Plans (continued)

Employees covered – The following employees were covered by the benefit terms for the Plan:

	Valuation Date July 1, 2015 (Fiscal 2016)	Valuation Date July 1, 2014 (Fiscal 2015)
Active members	1,951	1,887
Terminated vested members not yet receiving benefits	1,246	1,167
Retirees and beneficiaries currently receiving benefits	655	604
Total participants	3,852	3,658

Contributions – The authority to establish and amend obligations of Plan members and the District is set forth in the Plan document and is vested in the District's Board of Directors. Plan members are not required to contribute any of their annual covered salary. Prior to 2015, the District contributed such amounts, if any, as it determined to be appropriate each year. In fiscal year 2015, the Board adopted a pension funding policy whereby the District will contribute at minimum the actuarially determined contribution less required employee contributions. The annual required contributions for 2016 and 2015 were determined as part of actuarial valuation on July 1, 2015 and July 1, 2014, respectively, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a 7.25% and 7.5% investment rate of return in 2016 and 2015, respectively, and (b) projected salary increases of up to 7.0% and 7.5% per year in 2016 and 2015, respectively.

Net pension liability – The District's net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability was determined as part of actuarial valuations as of July 1, 2015 and 2014 rolled forward to June 30, 2016 and 2015, respectively, using the projected unit credit actuarial cost method. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial assumptions – The total pension liability was determined as part of actuarial valuations as of July 1, 2015 and 2014 rolled forward to June 30, 2016 and 2015, respectively, using actuarial methods and assumptions in accordance with GASB Statement Nos. 67 and 68. The total pension liability was calculated using the entry age normal actuarial cost method and RP-2014 Annuitant and Employee Morality Table with Blue Collar adjustments for Males and Females projected using Scale BB to 2029 for PEPRA Participants and no projection for all other Participants. The actuarial assumptions at June 30, 2016 included (a) a 7.25% investment long-term expected rate of return, net of investment expenses, and (b) projected salary increases of 3.00%. Items (a) and (b) included an inflation component of 2.50%.

Note 10 – Pension Plans (continued)

Discount rate – The discount rate used to measure the total pension liability for the fiscal year ended June 30, 2016 was 7.25% which decreased from a discount rate of 7.5% used in the valuation for the fiscal year ended June 30, 2015. This single discount rate was based on the expected rate of return on pension plan investments of 7.25%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current pension plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the Plan's discount rate assumes that contributions will continue at current levels for the current group of covered members with anticipated payroll increases of 3.0% annually.

The long-term expected rate of return on the Plan's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The long-term expected rates of return for each major investment class in the Plan's portfolio at June 30, 2016 are as follows:

Investment Class	Long-Term Expected Rate of Return
Domestic equity	
U.S. large cap core	9.0%
U.S. mid cap core	10.0%
U.S. small cap core	10.8%
International	
Developed market	9.8%
Emerging market	11.8%
Alternative	
Real estate- private REITS	8.8%
Hedge funds - market neutral	3.5%
Fixed income	
Core fixed income	3.3%
Cash equivalents	2.5%

Note 10 – Pension Plans (continued)

Changes in the net pension liability – The changes in Net Pension Liability follow:

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**
Changes in Net Pension Liability			
Balances as of June 30, 2014, as restated	$ 244,717,116	$ 133,184,810	$ 111,532,306
Changes for the year:			
Service cost	6,480,319	-	6,480,319
Interest on total pension liability	18,338,307	-	18,338,307
Benefit payments	(6,893,033)	(6,893,033)	-
Employer contributions	-	13,888,450	(13,888,450)
Member contributions	-	146,786	(146,786)
Net investment income	-	5,222,989	(5,222,989)
Administrative expenses	-	(74,122)	74,122
Balances as of June 30, 2015	$ 262,642,709	$ 145,475,880	$ 117,166,829
Changes for the year:			
Service cost	$ 6,707,130	$ -	$ 6,707,130
Interest on total pension liability	19,660,531	-	19,660,531
Effect of economic/demographic gains or losses	(5,190,447)	-	(5,190,447)
Effect of assumptions changes or inputs	8,835,715	-	8,835,715
Benefit payments	(7,711,728)	(7,711,728)	-
Employer contributions	-	18,711,729	(18,711,729)
Member contributions	-	660,595	(660,595)
Net investment income	-	(1,737,868)	1,737,868
Administrative expenses	-	(47,692)	47,692
Balances as of June 30, 2016	$ 284,943,910	$ 155,350,916	$ 129,592,994

Note 10 – Pension Plans (continued)

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the District, calculated using a discount rate of 7.25%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1% point lower (6.25%) or 1% point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Total pension liability	$ 326,847,511	$ 284,943,910	$ 250,349,472
Fiduciary net position	155,350,916	155,350,916	155,350,916
District's net pension liability	$ 171,496,595	$ 129,592,994	$ 94,998,556

Pension plan fiduciary net position – Detailed information about the Plan's fiduciary net position is available in the separately issued Antelope Valley Hospital Medical Center Retirement Plan financial reports.

Pension expenses and deferred outflows/inflows of resources related to pensions – The District recognized pension expense of $18,775,509 and $15,498,233 for the years ended June 30, 2016 and 2015, respectively. The District reported deferred outflows of resources and deferred inflows of resources at June 30, 2016 as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between actual and expected experience	$ (4,131,172)	$ -
Changes in assumptions or inputs	-	7,032,508
Net differences between projected and actual earnings on plan investments	-	13,485,789
Total	$ (4,131,172)	$ 20,518,297

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Annual Recognition
2017	$ 4,366,926
2018	4,366,926
2019	4,366,926
2020	3,286,347

Note 11 – Other Benefit Plans

457(b) deferred compensation – Effective February 1, 2014, the District has a deferred compensation plan provided to certain executives of the District. The District records a deferred compensation liability for amounts due these individuals which include the earnings from the invested assets. The liability is funded as required by the plan, based on the anniversary date of each participant. Payments relating to these plans representing the District's funded contribution were not significant for the fiscal years ended June 30, 2016 or 2015.

Postretirement health plan – The District's postretirement health care plan is a single-employer plan administered by the District's governing body. The authority to establish and amend benefit provisions, subject to collective bargaining agreements, is vested in the District's governing body. Under certain collective bargaining agreements (California Nurses Association (C.N.A.) union contract), effective with retirements on or after July 1, 2006, the District provides health care coverage to eligible retirees. A retiree is eligible to receive these benefits if they earned at least 16 years of Benefited Service (as defined in the agreements) as a nurse with the District, including five years of continuous Benefited Service on the date of retirement, and they retired from active service with the District while eligible to receive a pension benefit from the District.

Retirees under age 65 are eligible to participate in the least expensive medical plan offered by the District to its nurses. This coverage ceases for retirees upon attainment of age 65. The District contributes a percentage of the premiums for the retiree based on years of Benefited Service, and the District's contribution level is frozen as of the date of retirement and does not increase with postretirement medical trend increases.

Funding policy – The plan is a pay-as-you-go plan and, therefore, is not funded. The District funds the plan on a cash basis as benefits are paid. No assets have been segregated or restricted to provide plan benefits.

Note 11 – Other Benefit Plans (continued)

Annual OPEB cost and net OPEB obligation – The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the years ended June 30, 2016 and 2015, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan:

	2016	2015
Normal cost	$ 318,385	$ 456,906
Amortization of UAAL	193,506	288,177
Annual required contribution	511,891	745,083
Interest on prior year net OPEB obligation	119,476	95,308
Adjustment to annual required contribution	(212,401)	(169,436)
Annual OPEB cost	418,966	670,955
Benefits paid	(10,172)	(26,483)
Increase in net OPEB obligation	408,794	644,472
Net OPEB obligation at beginning of year	3,186,016	2,541,544
Net OPEB obligation at end of year	$ 3,594,810	$ 3,186,016

The District provides health insurance benefits for C.N.A. retirees who are age 55 or older and earned at least 16 years of benefitted service on the date of retirement. Retirees under the age of 65 are entitled to receive health care benefits until age 65 under the Plan. In addition, the District contributes a percent of the medical premiums based upon the employee's years of Benefited Service at retirement.

As of July 1, 2014, the most recent actuarial valuation date, the plan was unfunded. The OPEB obligation as of June 30, 2016 and 2015 is approximately $3,595,000 and $3,186,000, respectively. The annual obligation cost for the years ended June 30, 2016 and 2015 is approximately $419,000 and $671,000, respectively. The ARC for the years ended June 30, 2016 and 2015 is approximately $512,000 and $745,000, respectively.

The ARC for 2016 and 2015 was determined as part of an actuarial valuation on July 1, 2014. For measurement purposes, a 7.00% annual rate of increase in the per capita cost of covered health care was assumed for both 2016 and 2015 with such annual rate of increase gradually declining to 5.75% in the 15th year and after. The expected long-term annual investment return discount rate used in estimating the accumulated postretirement benefit obligation was 3.75% at June 30, 2016 and 2015. The actuarial cost method used was Projected Unit Credit. The amortization method used was Level Dollar over a remaining amortization period of 16 years.

Note 11 – Other Benefit Plans (continued)

Trend information – The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the last three years were as follows:

Years Ending June 30	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2016	$ 418,966	2.4%	$ 3,594,810
2015	670,955	3.9%	3,186,016
2014	624,294	2.2%	2,541,544

Funded status and funding progress – The following is funded status information as of July 1, 2014, the most recent actuarial valuation date.

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a) / c
$ -	$ 2,410,488	$ 2,410,488	0.0%	$ 2,362,612	102.0%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Note 12 – Contingencies

Litigation – In the normal course of business, the District is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the District's self-insurance program or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each potential claim. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Labor agreements – A substantial portion of the District's staff is covered by two collective bargaining agreements, one of which expired in June 2016 while the other expired in July 2015. Negotiations are currently in process on the expired collective bargaining agreements, though the ultimate outcome is not known at this time.

Note 12 – Contingencies (continued)

Operating leases – The District leases certain office space under operating lease agreements. Total lease expense, included in supplies and other expenses on the consolidated statements of revenues, expenses, and changes in net positon, amounted to approximately $7,393,000 and $5,702,000 in the fiscal years ended June 30, 2016 and 2015, respectively. The District subleases certain office suites to other businesses.

Minimum future lease payments and sublease rental income offsets on existing non-cancelable leases as of June 30, 2016 are as follows:

	Minimum Future Lease Payments	Sublease Rental Income	Net
2017	$ 6,469,346	$ (1,260,479)	$ 5,208,867
2018	6,363,921	(1,260,479)	5,103,442
2019	5,402,056	(1,260,479)	4,141,577
2020	3,196,894	(1,260,479)	1,936,415
2021	1,953,998	(1,260,479)	693,519
Thereafter	13,239,820	(9,779,609)	3,460,211
Total minimum lease payments	$ 36,626,035	$ (16,082,004)	$ 20,544,031

The District has a direct financing lease arrangement for land in Lancaster, CA. The lease term is for fifty years, expiring on August 31, 2062. The lease calls for monthly payments in the amount of $3,646, adjusted for inflation every five years from the commencement date of the lease. The future minimum lease payments to be received are as follows:

2017	$ 43,750
2018	43,750
2019	43,750
2020	43,750
2021	43,750
Thereafter	1,797,390
Total minimum lease receipts	$ 2,016,140

Note 12 – Contingencies (continued)

Regulatory matters – The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, governmental health care program requirements and reimbursements for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory action unknown or unasserted at this time.

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated CMS to implement a Recovery Audit Contractor (RAC) program on a permanent and nationwide basis. The program uses RACs to search for potentially improper Medicare payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, which have occurred at least one year ago but not longer than three years ago. RAC assessments against the District began in the year ended June 30, 2011; as of June 30, 2016 approximately $127,000 was accrued and for the year ended June 30, 2016 approximately $732,000 was repaid. As of June 30, 2015, approximately $127,000 was accrued and for the year ended June 30, 2015 approximately $1,079,000 was repaid.

Note 13 – Construction and Seismic Standards

Under current California laws, the District's facilities must comply with specific provisions related to structural and nonstructural seismic standards. These laws generally required hospitals to retrofit, remodel or upgrade several buildings before 2013, subject to legislative changes and certain available exemptions. The District received an extension to comply by July 1, 2019. The District is currently working on improvements to noncompliant buildings in order to receive exemptions available under current legislation through 2030. The cost estimates associated with this compliance have not been completed but will likely be significant.

Note 14 – Revenue from Governmental Programs

Hospital Fee Program – The California Hospital Fee Program (the "Program") was signed into law on September 8, 2010 by the Governor of California. The Program required a "hospital fee" or "Quality Assurance Fee" ("QA Fee") to be paid by certain hospitals to a State fund established to accumulate the assessed QA Fees and receive matching federal funds. QA Fees and corresponding matching federal funds are then paid to participating hospitals in two supplemental payment methodologies: a fee-for-service methodology and a managed care plan methodology. The District, as a non-designated public hospital in California, was not subject to the QA Fee assessments according to the legislation but rather received net supplemental payments.

Additional legislation ("SB335") extended the Program for the period from July 1, 2011 through December 31, 2013. Again, the Program included only private hospitals but did allow for direct grants to non-designated public hospitals. Additional legislation ("SB239") extended the Program for the period from January 1, 2015 through December 31, 2016. The District recognized net patient service revenue of approximately $1,608,000 and $2,952,000 related to the Program during the years ended June 30, 2016 and 2015, respectively.

IGT Program – During 2015 and 2016, the District received supplemental payments through the Non-designated Public Intergovernmental Transfer Program (IGT Program) created by AB113 to allow non-designated public hospitals to access additional federal funds. Under this legislation, the District recognized approximately $13,423,000 and $14,993,000 in net patient service revenue for the years ended June 30, 2016 and 2015, respectively. Fees paid by the District into the IGT Program were approximately $7,375,000 and $7,351,000 for the years ended June 30, 2016 and 2015, respectively, and are included in supplies and other expenses. The net impact of the IGT Program resulted in an increase in net position of approximately $6,048,000 and $7,642,000 for the years ended June 30, 2016 and 2015, respectively.

Meaningful use incentives – The American Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology. The Medicare incentive payments will be paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR meaningful use criteria that become more stringent over three stages designated by CMS.

Note 14 – Revenue from Governmental Programs (continued)

Medicaid programs and payment schedules vary from state to state. The Medi-Cal programs requires hospitals to register for the program prior to 2016, to engage in efforts to adopt, implement or upgrade certified EHR technology in order to qualify for the initial year of participation, and to demonstrate meaningful use of certified EHR technology in order to qualify for payment for up to three additional years. Incentives for Medicare Meaningful Use Stage 2 Year 2 of approximately $948,000, were received during the year ended June 30, 2016. Incentives for Medi-Cal and Medicare Meaningful Use Stage 1 Year 2 of approximately $1,605,000 and $1,687,000, respectively, were received during the year ended June 30, 2015. These incentives are recognized following the grant accounting model, recognizing income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria.

REQUIRED SUPPLEMENTARY INFORMATION

ANTELOPE VALLEY HEALTHCARE DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2016

Postretirement Health Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a) / c
July 1, 2014	$ -	$ 2,410,488	$ 2,410,488	0.0%	$ 2,362,612	102.0%
July 1, 2012	$ -	$ 3,095,719	$ 3,095,719	0.0%	$ 1,774,716	174.4%
July 1, 2010	$ -	$ 1,387,822	$ 1,387,822	0.0%	$ 1,491,088	93.1%

ANTELOPE VALLEY HEALTHCARE DISTRICT
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN YEARS*
FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
Total pension liability		
Service cost	$ 6,707,130	$ 6,480,319
Interest on total pension liability	19,660,531	18,338,307
Changes of assumptions	8,835,715	-
Difference between expected and actual experience	(5,190,447)	-
Benefit payments	(7,711,728)	(6,893,033)
Net change in total pension liability	22,301,201	17,925,593
Total pension liability		
Beginning of year	262,642,709	244,717,116
End of year (a)	$ 284,943,910	$ 262,642,709
Plan fiduciary net position		
Employer contributions	$ 18,711,728	$ 13,888,450
Member contributions	660,595	146,786
Net investment income	(1,737,867)	5,222,989
Administrative expenses	(47,692)	(74,122)
Benefit payments	(7,711,728)	(6,893,033)
Net change in plan fiduciary net position	9,875,036	12,291,070
Plan fiduciary net position		
Beginning of year	145,475,880	133,184,810
End of year (b)	$ 155,350,916	$ 145,475,880
District's net pension liability (a) - (b)	$ 129,592,994	$ 117,166,829
Plan fiduciary net position as a percentage of the total pension liability	54.52%	55.39%
Covered-employee payroll	$ 147,694,076	$ 145,363,784
District's net pension liability as a percentage of covered-employee payroll	87.74%	80.60%

* Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

Notes to Schedule:

Changes in benefit terms – The figures above do not include any liability impact that may have resulted from Plan changes which occurred after July 1, 2015. This applies to voluntary benefit changes as well as offers of service credits.

Change in assumptions – There were no changes in assumptions.

ANTELOPE VALLEY HEALTHCARE DISTRICT
SCHEDULE OF CONTRIBUTIONS
LAST TEN YEARS
FOR THE YEAR ENDED JUNE 30, 2016

Fiscal Year Ended	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Surplus)	Covered Payroll	Contribution as a % of Covered Payroll	Valuation Date	Investment Rate of Return Assumption
6/30/2016	$ 13,400,105	$ 18,711,728	$ (5,311,628)	$ 147,694,076	12.67%	7/1/2015	7.25%
6/30/2015	13,497,568	13,888,450	(390,882)	145,363,784	9.55%	7/1/2014	7.50%
6/30/2014	17,804,538	7,226,851	10,577,687	141,499,947	5.11%	7/1/2013	8.00%
6/30/2013	16,717,000	8,076,596	8,640,404	136,714,925	5.91%	7/1/2012	8.00%
6/30/2012	15,110,012	6,879,315	8,230,697	138,940,618	4.95%	7/1/2011	8.00%
6/30/2011	12,757,461	7,240,424	5,517,037	134,153,568	5.40%	7/1/2010	8.00%
6/30/2010	11,053,926	5,830,054	5,223,872	127,037,158	4.59%	7/1/2009	8.00%
6/30/2009	10,163,395	5,660,550	4,502,845	107,653,212	5.26%	7/1/2008	8.00%
6/30/2008	10,159,993	2,997,248	7,162,745	100,178,228	2.99%	7/1/2007	8.00%
6/30/2007	10,911,300	2,546,342	8,364,958	93,458,358	2.72%	7/1/2006	8.00%
6/30/2006	9,407,187	1,200,000	8,207,187	85,623,829	1.40%	7/1/2005	8.00%

Notes to Schedule

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Effective July 1, 2014: Individual Entry Age Normal cost method Through July 1, 2013: Projected Unit Credit cost method
Amortization Method	Effective July 1, 2014: Closed 25-year amortization, level percentage of pay Through July 1, 2013: Open 10-year amortization, level dollar amount
Asset Valuation Method	Market value gains and losses smoothed over four years, with result not less than 80% or greater than 120% of market value
Healthy Mortality	Effective July 1, 2015: Healthy Combined RP-2014 mortality projected to 2029 using scale BB for PEPRA participants Effective July 1, 2009: Healthy Combined RP-2000 mortality projected to 2015 (2030 for PEPRA participants) Through July 1, 2008: 1983 Group Annuity Mortality Tables
Inflation	Effective July 1, 2015: 2.50% per year Effective July 1, 2007: 2.75% per year Through July 1, 2006: 3.0% per year
Salary Increases	Effective July 1, 2015: 3.0% including inflation Effective July 1, 2010: 7.5%-3.5% by duration Through July 1, 2009: 5.0% per year with merit increases
Retirement age:	Normal retirement at 65 years old; Early retirement at 55 years old and 10 years of service
Investment rate of return:	Effective July 1, 2015: 7.25%, net of investment expense, including inflation Effective July 1, 2014: 7.5%, net of investment expense, including inflation Through July 1, 2013: 8.0%, net of investment expense, including inflation

ADDITIONAL SUPPLEMENTARY INFORMATION

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATING SCHEDULE OF NET POSITION
JUNE 30, 2016

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
CURRENT ASSETS						
Cash and cash equivalents	$ 14,080,999	$ 389,917	$ 4,182,771	$ 18,653,687	$ -	$ 18,653,687
Short-term investments	52,929,399	-	-	52,929,399	-	52,929,399
Restricted cash and investments, current	1,894,596	-	-	1,894,596	-	1,894,596
Patient accounts receivable, net	54,088,504	2,421,825	-	56,510,329	-	56,510,329
Other receivables, net	2,324,359	60,272	-	2,384,631	(115,115)	2,269,516
Supplies inventory	5,639,571	64,608	-	5,704,179	-	5,704,179
Prepaid expenses and other current assets	2,255,518	59,973	-	2,315,491	-	2,315,491
Estimated third-party payor settlements	6,787,283	-	-	6,787,283	-	6,787,283
Total current assets	140,000,229	2,996,595	4,182,771	147,179,595	(115,115)	147,064,480
NONCURRENT CASH AND INVESTMENTS						
Held by trustee	17,881,445	-	-	17,881,445	-	17,881,445
Less amounts required to meet current obligations	1,857,483	-	-	1,857,483	-	1,857,483
	16,023,962	-	-	16,023,962	-	16,023,962
Other long-term investments	50,223,139	-	-	50,223,139	-	50,223,139
Total noncurrent cash and investments	66,247,101	-	-	66,247,101	-	66,247,101
CAPITAL ASSETS, net	162,615,966	584,651	-	163,200,617	-	163,200,617
OTHER ASSETS	894,599	-	-	894,599	(784,623)	109,976
Total noncurrent assets	229,757,666	584,651	-	230,342,317	(784,623)	229,557,694
Total assets	369,757,895	3,581,246	4,182,771	377,521,912	(899,738)	376,622,174
DEFERRED OUTFLOWS OF RESOURCES						
Net difference between expected and actual earnings on pension plan investments	20,518,297	-	-	20,518,297	-	20,518,297
Deferred loss on debt defeasance	4,633,772	-	-	4,633,772	-	4,633,772
	25,152,069	-	-	25,152,069	-	25,152,069
Total assets and deferred outflows of resources	$ 394,909,964	$ 3,581,246	$ 4,182,771	$ 402,673,981	$ (899,738)	$ 401,774,243

(Continued)

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATING SCHEDULE OF NET POSITION (CONTINUED)
JUNE 30, 2016

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION						
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	$ 17,459,926	$ 797,250	$ 128,050	$ 18,385,226	$ (115,115)	$ 18,270,111
Accrued payroll and related expenses	14,605,108	624,638	-	15,229,746	-	15,229,746
Current maturities of long-term debt	2,164,729	134,260	-	2,298,989	-	2,298,989
Accrued self-insurance liabilities, current portion	7,698,318	-	-	7,698,318	-	7,698,318
Accrued interest payable	1,857,483	-	-	1,857,483	-	1,857,483
Total current liabilities	43,785,564	1,556,148	128,050	45,469,762	(115,115)	45,354,647
LONG-TERM DEBT, net of current portion	130,351,277	196,529	-	130,547,806	-	130,547,806
ACCRUED SELF-INSURANCE LIABILITIES, net of current portion	14,889,092	-	-	14,889,092	-	14,889,092
PENSION AND OPEB LIABILITIES	133,187,804	-	-	133,187,804	-	133,187,804
Total liabilities	322,213,737	1,752,677	128,050	324,094,464	(115,115)	323,979,349
DEFERRED INFLOWS OF RESOURCES						
Differences in experience (note 10)	4,131,172	-	-	4,131,172	-	4,131,172
NET POSITION						
Members' contributed capital	-	1,000,000	280,000	1,280,000	(1,280,000)	-
Net investment in capital assets	52,615,177	253,862	-	52,869,039	-	52,869,039
Restricted, expendable for:						
Workers' compensation collateral	37,113	-	-	37,113	-	37,113
Specific operating activities	164,202	-	-	164,202	-	164,202
Restricted, nonexpendable for minority interests	-	-	-	-	521,594	521,594
Unrestricted	15,748,563	574,707	3,774,721	20,097,991	(26,217)	20,071,774
Total net position	68,565,055	1,828,569	4,054,721	74,448,345	(784,623)	73,663,722
Total liabilities, deferred inflows of resources and net position	$ 394,909,964	$ 3,581,246	$ 4,182,771	$ 402,673,981	$ (899,738)	$ 401,774,243

See accompanying report of independent auditors.

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
OPERATING REVENUES						
Net patient service revenue	$ 393,775,831	$ 15,317,708	$ -	$ 409,093,539	$ -	$ 409,093,539
Other revenue	5,652,144	17,385	-	5,669,529	(660,475)	5,009,054
Total operating revenue	399,427,975	15,335,093	-	414,763,068	(660,475)	414,102,593
OPERATING EXPENSES						
Salaries and wages	168,411,471	3,770,908	77,025	172,259,404	-	172,259,404
Employee benefits	57,395,025	686,995	-	58,082,020	-	58,082,020
Fees to individuals and organizations	22,887,524	6,702,822	780	29,591,126	-	29,591,126
Purchased services	30,545,474	-	3,900	30,549,374	-	30,549,374
Supplies and other expenses	99,037,468	3,177,766	138,412	102,353,646	(514,110)	101,839,536
Depreciation and amortization	14,305,308	763,117	-	15,068,425	-	15,068,425
Total operating expenses	392,582,270	15,101,608	220,117	407,903,995	(514,110)	407,389,885
OPERATING INCOME (LOSS)	6,845,705	233,485	(220,117)	6,859,073	(146,365)	6,712,708
NONOPERATING REVENUES (EXPENSES)						
Grant revenue and contributions	3,029,817	-	5,578	3,035,395	524,613	3,560,008
Investment income	1,159,837	-	56,876	1,216,713	-	1,216,713
Bond issuance costs	(2,420,567)	-	-	(2,420,567)	-	(2,420,567)
Interest expense	(6,705,989)	(23,563)	-	(6,729,552)	-	(6,729,552)
Total nonoperating revenues (expenses), net	(4,936,902)	(23,563)	62,454	(4,898,011)	524,613	(4,373,398)
Income (loss) before capital contributions	1,908,803	209,922	(157,663)	1,961,062	378,248	2,339,310
CAPITAL CONTRIBUTIONS	524,613	-	-	524,613	(524,613)	-
Change in net position	2,433,416	209,922	(157,663)	2,485,675	(146,365)	2,339,310
NET POSITION, Beginning of year	66,131,639	1,618,647	4,212,384	71,962,670	(638,258)	71,324,412
NET POSITION, End of year	$ 68,565,055	$ 1,828,569	$ 4,054,721	$ 74,448,345	$ (784,623)	$ 73,663,722

See accompanying report of independent auditors.

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATING SCHEDULE OF NET POSITION
JUNE 30, 2015

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
CURRENT ASSETS						
Cash and cash equivalents	$ 8,737,028	$ 325,292	$ 3,356,449	$ 12,418,769	$ -	$ 12,418,769
Short-term investments	45,930,235	-	-	45,930,235	-	45,930,235
Restricted cash and investments, current	2,243,184	-	-	2,243,184	-	2,243,184
Patient accounts receivable, net	48,835,695	2,284,211	-	51,119,906	-	51,119,906
Other receivables, net	2,771,522	60,272	-	2,831,794	(208,612)	2,623,182
Supplies inventory	5,778,325	59,162	-	5,837,487	-	5,837,487
Prepaid expenses and other current assets	2,485,569	-	-	2,485,569	-	2,485,569
Estimated third-party payor settlements	3,443,401	-	-	3,443,401	-	3,443,401
Total current assets	120,224,959	2,728,937	3,356,449	126,310,345	(208,612)	126,101,733
NONCURRENT CASH AND INVESTMENTS						
Held by trustee	13,734,648	-	-	13,734,648	-	13,734,648
Less amounts required to meet current obligations	2,206,127	-	-	2,206,127	-	2,206,127
	11,528,521	-	-	11,528,521	-	11,528,521
Other long-term investments	56,295,243	-	-	56,295,243	-	56,295,243
Total noncurrent cash and investments	67,823,764	-	-	67,823,764	-	67,823,764
CAPITAL ASSETS, net	173,499,540	903,924	-	174,403,464	-	174,403,464
OTHER ASSETS	967,284	-	1,002,361	1,969,645	(638,258)	1,331,387
Total noncurrent assets	242,290,588	903,924	1,002,361	244,196,873	(638,258)	243,558,615
Total assets	362,515,547	3,632,861	4,358,810	370,507,218	(846,870)	369,660,348
DEFERRED OUTFLOWS OF RESOURCES	4,024,740	-	-	4,024,740	-	4,024,740
Total assets and deferred outflows of resources	$ 366,540,287	$ 3,632,861	$ 4,358,810	$ 374,531,958	$ (846,870)	$ 373,685,088

(Continued)

See accompanying report of independent auditors.

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATING SCHEDULE OF NET POSITION (CONTINUED)
JUNE 30, 2015

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
LIABILITIES AND NET POSITION						
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	$ 14,436,003	$ 909,956	$ 146,426	$ 15,492,385	$ (208,612)	$ 15,283,773
Accrued payroll and related expenses	18,843,306	544,024	-	19,387,330	-	19,387,330
Current maturities of long-term debt	6,593,084	483,443	-	7,076,527	-	7,076,527
Accrued self-insurance liabilities, current portion	7,458,211	-	-	7,458,211	-	7,458,211
Accrued interest payable	2,206,127	-	-	2,206,127	-	2,206,127
Total current liabilities	49,536,731	1,937,423	146,426	51,620,580	(208,612)	51,411,968
LONG-TERM DEBT, net of current portion	116,302,072	76,791	-	116,378,863	-	116,378,863
ACCRUED SELF-INSURANCE LIABILITIES, net of current portion	14,217,000	-	-	14,217,000	-	14,217,000
PENSION AND OPEB LIABILITIES	120,352,845	-	-	120,352,845	-	120,352,845
Total liabilities	300,408,648	2,014,214	146,426	302,569,288	(208,612)	302,360,676
NET POSITION						
Members' contributed capital	-	1,000,000	280,000	1,280,000	(1,280,000)	-
Net investment in capital assets	64,339,032	343,690	-	64,682,722	-	64,682,722
Restricted, expendable for:						
Workers' compensation collateral	37,057	-	-	37,057	-	37,057
Specific operating activities	158,790	-	522,570	681,360	-	681,360
Restricted, nonexpendable for minority interests	-	-	-	-	459,004	459,004
Unrestricted	1,596,760	274,957	3,409,814	5,281,531	182,738	5,464,269
Total net position	66,131,639	1,618,647	4,212,384	71,962,670	(638,258)	71,324,412
Total liabilities and net position	$ 366,540,287	$ 3,632,861	$ 4,358,810	$ 374,531,958	$ (846,870)	$ 373,685,088

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
OPERATING REVENUES						
Net patient service revenue	$ 380,038,495	$ 14,222,902	$ -	$ 394,261,397	$ -	$ 394,261,397
Other revenue	8,088,115	21,151	-	8,109,266	(735,373)	7,373,893
Total operating revenue	388,126,610	14,244,053	-	402,370,663	(735,373)	401,635,290
OPERATING EXPENSES						
Salaries and wages	164,530,782	3,594,517	106,075	168,231,374	-	168,231,374
Employee benefits	55,602,961	713,174	-	56,316,135	-	56,316,135
Fees to individuals and organizations	21,225,974	6,223,598	2,200	27,451,772	-	27,451,772
Purchased services	24,323,696	-	-	24,323,696	-	24,323,696
Supplies and other expenses	100,365,351	3,252,172	187,476	103,804,999	(1,033,465)	102,771,534
Depreciation and amortization	13,844,507	658,982	-	14,503,489	-	14,503,489
Total operating expenses	379,893,271	14,442,443	295,751	394,631,465	(1,033,465)	393,598,000
OPERATING INCOME (LOSS)	8,233,339	(198,390)	(295,751)	7,739,198	298,092	8,037,290
NONOPERATING REVENUES (EXPENSES)						
Grant revenue and contributions	2,966,314	-	408,869	3,375,183	314,561	3,689,744
Investment income	908,321	49	77,665	986,035	-	986,035
Interest expense	(5,749,123)	(49,086)	-	(5,798,209)	-	(5,798,209)
Total nonoperating revenues (expenses), net	(1,874,488)	(49,037)	486,534	(1,436,991)	314,561	(1,122,430)
Income (loss) before capital contributions	6,358,851	(247,427)	190,783	6,302,207	612,653	6,914,860
CAPITAL CONTRIBUTIONS	314,561	-	-	314,561	(314,561)	-
Change in net position	6,673,412	(247,427)	190,783	6,616,768	298,092	6,914,860
NET POSITION, Beginning of year, previously reported	111,091,650	1,866,074	4,021,601	116,979,325	(936,350)	116,042,975
Cumulative effect of change in accounting principle	(51,633,423)	-	-	(51,633,423)	-	(51,633,423)
NET POSITION, Beginning of year, as restated	59,458,227	1,866,074	4,021,601	65,345,902	(936,350)	64,409,552
NET POSITION, End of year	$ 66,131,639	$ 1,618,647	$ 4,212,384	$ 71,962,670	$ (638,258)	$ 71,324,412

See accompanying report of independent auditors.